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OCI No. 2955/63

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
1 October 1963

CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: Brazil

1. Brazil's prolonged period of political and economic instability could soon take a turn for the worse if President Goulart fails to take effective remedial action. Governmental ineptitude and corruption, constant agitation by the extreme left and extreme right, serious labor problems, and a rampant and accelerating inflation are contributing to a growing undercurrent of dissatisfaction and a trend toward domestic political polarization. This instability and the strong positions being won by extreme leftists, if not checked, will tend to push the country toward more radical departures in domestic and foreign policies.

2. Aggravating this situation are the political tactics of President Goulart who, although he may be primarily interested in political power, is most at home on the left. While he occasionally caters to pressure from political moderates and the military establishment, he has not disassociated himself from the extreme left advisers. There are indications that Goulart might attempt to exploit the present situation by grasping greater power and establishing at best a Peron-like regime before his term expires in January 1966. Should this occur, there is the possibility that his actions could ultimately lead to a subsequent takeover by a coalition of ultranationalists and Communists. The danger of such a Communist takeover, according to Ambassador Gordon, arises from Goulart's total incompetence to understand or resolve real problems both economic and administrative.

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3. The threat of a military/conservative pre-emptive coup exists and will intensify as long as conditions remain unsettled and Goulart persists in his leftward direction. Thus far, Goulart has been able to keep control by a skillful shuffling of appointments and by keeping his opposition off guard. How long he can succeed in balancing political pressures is problematical.

Goulart and the Left

4. The leftist ultranationalists and pro-Communists appear to be benefiting both from the present confused political situation and from the tolerant attitude of the President. Goulart has appointed some Communists and Communist sympathizers to key administration posts and has removed a number of pro-US and anti-Communists from office.

he is relying increasingly on extreme leftists, such as pro-Communist Governor Miguel Arraes of Pernambuco, for counsel on major problems.

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5. Goulart, of course, derives his mass support from labor, and therefore claims he must appease the left. At the same time he recognizes that his inclinations--and indeed his associations--impose on him the need for pacifying the military which has become increasingly disturbed by the aggressiveness of the far left, particularly Communist labor and the radical fringe led by Leonel Brizola, Goulart's anti-US brother-in-law.

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Labor

7. The Brazilian labor code gives the President extensive control over the trade unions, and Goulart

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has successfully employed this power to manipulate organized labor, which is now the core of his political support. Through the use of patronage, Goulart has kept tight control on union leaders. In return for their support he has helped pro-Communist and Communist elements reach prominent positions in the labor movement.

8. Goulart apparently believes that he can maintain a Communist-led labor force to insulate him from industrialist and military pressures and yet keep labor sufficiently under his power to prevent a complete Communist takeover. While Goulart does appear to have power over the unions, he says at times that he is somewhat alarmed over increased Communist influence in labor. In May 1963 Goulart encouraged the non-Communist Workers Trade Union (UST) of Sao Paulo to expand into Rio de Janeiro and other areas as a rival to the Communist-dominated General Workers Command (CGT) and gave it financial assistance. He subsequently removed the pro-Communist Minister of Labor, Almino Afonso. His interest in the UST, however, appears to have waned recently.

9. Nevertheless, the Labor Attaché believes that Goulart will probably attempt to keep the labor movement divided between the CGT and UST so that neither will be a threat to him, "zipping and zagging as seems most expedient" at any given moment.

The Communists

10. The Brazilian Communist Party (PCB) has been illegal since 1947, but it has considerable freedom of operation. Despite its relatively small membership--30,000 in a population of 75 million--the PCB and its sympathizers possess an influence beyond that which the size of the party would indicate. As has been indicated, they hold important posts in the federal government, and some half-dozen Communists hold congressional seats under other party labels. In the northeast, the governor of the key state of Pernambuco and the mayor-elect of the region's chief city, Recife, are pro-Communist and work closely with the PCB. The Communists virtually control three of Brazil's five labor confederations and also dominate the country's major student organizations.

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11. It is the PCB's policy to promote a "peaceful revolution," taking advantage of the present favorable climate which the Communists apparently feel affords adequate opportunity for extending their influence. The Communists' present emphasis on penetration has split the party, and there is now a small, separate, pro-Chinese group, called the Communist Party of Brazil (CPB).

The Right

12. Opposition to the regime extends across the political spectrum but is predominantly rightist and military. It is centered in the country's two leading cities, Rio de Janeiro and Sao Paulo. Governor Carlos Lacerda of Guanabara State (the city of Rio de Janeiro), perennial critic of incumbent Presidents, is perhaps Goulart's most outspoken opponent. A shrewd politician himself and an effective reform administrator, Lacerda enjoys considerable support among conservative military officers as well as his own large National Democratic Union, and increasing support from all classes in Guanabara. Lacerda believes that Goulart will use some pretext for intervening in Guanabara to depose him.

The Military

13. The most effective restraint on Goulart is the tradition of anti-extremism in the armed forces which still operates despite Goulart's recent reassignments and promotions. The key figure in the military at present is War Minister Jair Ribeiro, who appears to be loyal to Goulart and, following the military tradition, is probably willing to support him in any action that falls short of unconstitutional behavior.

14. Ribeiro has a reputation as a man without deep personal convictions who is basically ultranationalist. Ribeiro appears to be torn between conflicting pressures. On the one hand he has expressed a determination to keep the military out of politics, while on the other hand he is being urged by military leaders to seize the initiative and crack down on the leftists. He acted firmly to put down the recent leftist sergeants outbreak and endorsed the use of troops against the strikers in Santos in early September.

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15. While the majority of active military officers probably mistrust Goulart, he has made considerable progress towards neutralizing the military as a check on his political actions. Using his control over promotions and assignments, Goulart has removed from key commands officers who are not entirely loyal to him and replaced them with his supporters, many of whom are leftist ultranationalists unfriendly to the US. Goulart reached far down the eligibility list to promote a probable Communist to Brigadier General. The officer in question--Argemiro de Assis Brasil--was subsequently appointed as chief military adviser to President Goulart. Of 16 officers promoted to Brigadier General or higher on 26 July, eight have ultranationalist connections, while the others are considered "legalists" who would probably support the administration.

Foreign Policy

16. Brazil's foreign policy during the past decade has become increasingly nationalistic and independent, a policy which Goulart has continued. In line with the prevalent feeling in Brazil that the country is entitled to great power status, President Goulart seeks to have Brazil play a prominent role in international affairs. In a speech during Marshal Tito's recent visit, Goulart said that Brazil "does not accept the present division of the world into two opposing camps" as a basis for international relations.

17. US-Brazil relations have declined since World War II largely because many Brazilian leaders feel their country has outgrown its traditional position vis-a-vis the US. The divergence in US-Brazilian positions has been exacerbated by pressure from ultranationalists and extreme leftists who picture the US as responsible for Brazil's economic difficulties and as desirous of keeping Brazil in a subordinate position. The shortcomings of the Alliance for Progress in Brazil have contributed to this unfavorable attitude. Meanwhile, the government has been exploring the possibility of expanding relations with the Communist bloc.

18. Brazil now maintains diplomatic relations with Cuba, the Soviet Union, and with all East European satellites except East Germany. In April 1963 Brazil and the USSR concluded a five-year trade and payments

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agreement calling for an increase in the level of trade from the 1962 level of \$70 million to \$225 million in 1965. By 1965 the USSR may provide up to one-third of Brazil's imports of crude oil and petroleum products.

The Economy

19. On the economic front, inflation is rampant and accelerating. The cost of living, which went up about 20 percent a year in the 1950's, shot up by some 50 percent in 1962. During the first eight months of 1963 it advanced over 40 percent and may go well beyond 60 percent by the end of the year. The cruzeiro has dropped to a record low of 1,200 to the dollar from about 850 two months ago.

20. The state of virtually chronic financial crisis has brought a decline in business confidence and slowed down the rate of economic growth. GNP has been going up, but at a declining rate. This year, the GNP figure may well go down in per capita terms, partly as a result of a sharp decline in coffee production occasioned by a combination of frosts, drought, and fire.

21. The stabilization program outlined in an exchange of letters last March between US AID Administrator Bell and the Brazilian finance minister now seems to be a dead letter. The program contemplated the rescue of the Brazilian economy by new aid from the US, the International Monetary Fund, and other sources. The aid was to be contingent on Brazilian measures to set the economy in order, but these measures were not taken. Rumors are now rife that Brazil will ask for a moratorium on payments to at least some foreign creditors, since the country's burden of debt service is so extraordinarily high--more than 40 percent of export receipts. About one-half of Brazil's outstanding foreign debt, totaling \$3 billion, matures during the period 1963-65. The problem is compounded by the arrears in commercial debt--now more than \$175 million.

22. With virtually no foreign exchange reserves to fall back on and with large-scale foreign assistance held up, Brazil's options are dangerously narrowed.



If the government finds itself forced to curtail imports drastically in order to balance its international accounts, there may be a serious depression of the domestic economy, with attendant political repercussions.

Recent Developments

23. Political instability heightened as a result of the abortive 12 September uprising in Brasilia by nearly 600 air force and naval non-commissioned officers. The outbreak was ostensibly a protest demonstration against a court decision prohibiting sergeants from holding public office. Subsequently, evidence was reported which indicated that the "sergeants' revolt" may actually have been linked to a wider plot.

24. Following the War Minister's quick and firm suppression of the uprising, a rightist anti-Goulart plot was discovered near Rio de Janeiro on 18 September. While the apparent instigator of the plot--retired Admiral Sylvio Heck--lacks significant support and is not considered a serious threat, the incident aggravated the already tense situation and encouraged extreme leftists in labor's leadership to revive their threat of a general strike.

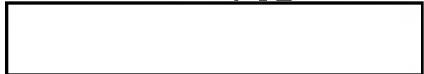
25. Reacting against the strike threat, General Peri Bevilacqua, anti-Communist Commander of the Second Army in Sao Paulo, publicly denounced the Communist labor leaders and their allies and threatened to use troops to prevent any mass walkout. The Communist-dominated General Workers Command (CGT) retaliated with an unsuccessful demand for Bevilacqua's dismissal and issued a "manifesto" calling for immediate acceptance of a radical program by the government which would include drastic constitutional changes. While the evidence is inconclusive, it is possible that Goulart has encouraged the CGT behind the scenes in order to gain support for his program of "basic reforms."

Prospects

26. While the government's decision to retain General Bevilacqua as Second Army Commander has temporarily calmed the situation somewhat, indications are that political conditions will remain unstable.

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Plotting by rightist military officers continues; there are reports that a series of leftist strikes is planned soon for Rio de Janeiro and Sao Paulo and possibly other areas; and leftist sergeant groups may react vigorously to pending judicial decisions on their political candidacies.

27. How President Goulart, his political opponents, and the armed forces react to these and other matters over the next few weeks and months may be critical for Brazil. No matter what the outcome, Brazil will continue to face basic political, economic, and sociological problems which the Goulart administration has done little to alleviate during the last two years. At issue is not only the direction the regime may take in these difficult circumstances but also the capacity and willingness of Goulart to deal effectively with Brazil's most urgent needs.

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